

Statement of Educational Requirements under the Guidelines for Interest Rate and Forward Purchase Agreements

Dated October 16, 2000

The Guidelines specify that the Chief Executive Officer and the Chief Financial Officer of a Governmental Entity must obtain a basic understanding of the risks and benefits of entering into an Interest Rate Agreement or Forward Purchase Agreement prior to requesting a report by the Comptroller of compliance of such agreement [Sections IV.J and V.H]. Either the CEO or the CFO of the Governmental Entity must have attended educational training approved by the Comptroller. The following is a statement regarding such educational requirements.

The objective of the required educational training is that upon completion of the training, the CEO or CFO should be able to review a proposed Interest Rate Agreement or Forward Purchase Agreement, to identify all risks to the Governmental Entity, and to evaluate the benefits to be obtained relative to the risks assumed.

Such educational training should be targeted primarily to Governmental Entity officers and must have been attended within two-years prior to the request. The minimum training required is 6 educational training hours for Interest Rate Agreements and 2 educational training hours for Forward Purchase Agreements. An "educational training hour" shall consist of at least 50 minutes of lecture and discussion in a classroom/conference room setting. The training must be conducted in a manner to allow attendees to pose timely questions and receive timely responses shared with all in attendance.

For educational training to be approved, the training must be offered by a provider having substantial experience in offering continuing education or demonstrated ability to organize and present effectively continuing education. Demonstrated ability may be evidenced by the individuals involved in the planning, instruction, and supervision of the activity. The presenters must be qualified by academic or practical experience, and the training should be designed to incorporate both. Case studies describing actual transactions must be included in the training.

The Comptroller may at any time re-evaluate a program and revoke approval. Training will be submitted to the Comptroller for review biannually after the initial approval to insure standards are still being met and the program is up to date.

A sponsor desiring to advertise Comptroller approval of a course or program may submit an application for approval and the supporting documentation on forms prepared by the Comptroller at least forty-five (45) days prior to the date on which the course or program is scheduled. Documentation shall include an outline of the proposed program (including teaching schedule), lesson plans, handouts, visual aids and a list of instructors, including resumes or other evidence of qualification to train. The Comptroller may request other information. Approval or disapproval in writing will be given by mail within thirty (30) days of the receipt of the completed application. Approval of training may be requested subsequent to presentation upon request by either the sponsor or a Governmental Entity official attendee and submission of supporting documentation.

Approval by the Comptroller does not constitute approval for qualification as continuing education credits for any other purpose other than the Guidelines.

Providers of approved educational training may advertise or indicate approval as follows: "This course has been approved by the Comptroller of the Treasury for the State of Tennessee for a maximum of ___ hours credit, towards the required education specified in Section(s) IV.J (and V.H) of the Guidelines for Interest Rate Agreements and Forward Purchase Agreements."

An applicant shall demonstrate to the satisfaction of the Comptroller that

- A. The training submitted for approval shall:
 - 1. Accurately and fairly present the subjects listed below;
 - 2. Not include any sales presentations;
 - 3. Be conducted in a facility containing adequate space, seating, and equipment;
 - 4. Be conducted substantially as planned, subject to emergency withdrawals and alterations;
 - 5. Include readable and carefully prepared written materials made available to all participants at or before the time of the course presentation (a mere outline without explanation will not suffice);
- B. The sponsor shall:
 - 1. Maintain accurate and permanent records on all students attending the training;
 - 2. Submit to the Comptroller within ten (10) working days of the completion of the training a roster of all attendees, including the name, social security number (if available), Governmental Entity employer, job title and a certification by the attendee of the number of hours attended [a sample attendance roster is attached].
 - 3. Submit to the Comptroller within ten (10) working days of the completion of the training copies of written evaluations of the course, completed by substantially all attendees [a sample evaluation form is attached].
 - 4. If Applicant is a provider of Interest Rate Agreement or Forward Purchase Agreement products, agree not to discuss, induce, or promote specific use with attendees during training or to use list of attendees for direct solicitation.
 - 5. Not provide items of value (including meals, tote bags) unless such costs are included in the fee for the training.

By applying for the Comptroller's approval of an educational training, the Applicant agrees to permit inspections and monitoring by the Comptroller or his authorized representative for the purposes of evaluating facilities, course content, instructor performance, or any other relevant aspect of the administration and conduct of such training.

The following topics should be covered in the program:

Interest Rate Agreements (6 hours)

Definitions

- Derivatives, in general, including swaps, forwards, futures and options
- Interest rate swaps, exchanging cash flows for a given period
- Interest rate indices, including LIBOR and BMA
- Related derivatives, including floors, caps, collars and options related to swaps
- Qualified Hedge rules, impacting both financial reporting and arbitrage rebate liability
- Key terms

Administration

- Legal authority
- Accounting treatment
- Procurement Process
- Documentation⁴
- Reporting/monitoring

Mechanics

- Exchanging fixed rates for variable rates
- Exchanging variable rates for fixed rates
- Impact of changes in the interest rate market on the transaction
- Termination/unwinding

Benefits

- Reduce interest rate risk at some additional cost
- Assume interest rate risk to effect some anticipated “savings”
- Hedging versus speculation
- Asset-liability management

Risks

- Interest rate risk
- Basis risk
- Counterparty risk
- Termination risk
- Tail risk
- Tax risk
- Leverage risk
- Shared risk

Risk Management

- Maintenance of appropriate level of variable rate exposure
- Selection of index
- Selection of counterparty
- Use of insurance
- Use of collateral

Forward Purchase Agreements (2 hours)

Definitions

- Forward purchase, forward period, forward premium
- Forward debt issuances, refundings and new money issues
- Related issues, application to AMT and refunded bonds, disclosures

Administration

- Legal authority
- Accounting treatment
- Procurement process
- Documentation
- Reporting/monitoring

Mechanics

- Elements that comprise the forward premium- liquidity and implicit premiums
- Impact of changes in the interest rate market on the transaction
- Impact of the length of the forward period on the transaction
- Termination/unwinding

Benefits

- Reduce interest rate risk
- Assume interest rate risk
- Hedging versus speculation

Risks

- Interest rate risk
- Counterparty risk
- Termination risk
- Uncertainty of results
- Security delivery risk
- Tax risk

Risk Management

- Analysis of the forward premium
- Forward refunding savings thresholds
- Selection of counterparty
- Use of insurance